

# ***NEWS RELEASE***

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SOUTHERN DISTRICT OF CALIFORNIA  
San Diego, California***

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***For Immediate Release***

## **NEWS RELEASE SUMMARY - July 13, 2006**

United States Attorney Carol C. Lam announced today the entry of the seventh felony guilty plea resulting from the government's investigation and prosecution of past securities fraud at Peregrine Systems, Inc. ("Peregrine"), a business software company formerly headquartered in San Diego, California, and now a division of Hewlett-Packard Company. Douglas Stephen Powanda, the former Vice President of Worldwide Sales, entered guilty pleas in federal court in San Diego before United States District Court Judge Thomas J. Whelan to: conspiracy to commit securities fraud, wire fraud, falsification of corporate books, records and accounts, and bank fraud; and securities fraud.

In connection with his guilty pleas, Powanda admitted that while working for Peregrine, he participated with other co-defendants in a massive conspiracy and scheme to fraudulently manipulate Peregrine's publicly filed financial reports. Powanda further admitted that the conspirators engaged in a number of fraudulent and deceptive practices, including (1) improperly keeping Peregrine's books "open"

past the end of the fiscal quarter, and back-dating contract documents to make it appear as if they had been executed before the end of the fiscal quarter, in order to fraudulently include in the prior quarter contracts that had actually been executed in a subsequent fiscal quarter; (2) improperly recording revenue on contracts that were subject to oral and written side agreements and promises; (3) improperly recording revenue on purported sales on reciprocal deals that were dependent on Peregrine providing the purchaser with cash, equity, or orders for products or services; and (4) improperly paying kickbacks to deal partners for signing fraudulent contracts with Peregrine. When Peregrine was unable to collect on the accounts receivable associated with these sham deals, Powanda and his co-conspirators engaged in several deceptive tactics to conceal Peregrine's true financial condition, including fraudulently selling accounts receivable from these bad deals to financial institutions, crediting or "burning" these outstanding receivables with unrelated deals, and deceptively writing-off these uncollectible receivables by falsely claiming that they related to recent acquisitions by Peregrine.

According to court documents, Powanda served as a senior sales executive at Peregrine from 1992 until 2001, eventually rising to the position of Vice President of Worldwide Sales. From 2001 through 2002, Powanda served in the Office of the Chairman of the Board of Peregrine, reporting directly to co-defendant Stephen Parker Gardner. The vast majority of Powanda's compensation during his affiliation with Peregrine was directly tied to Peregrine's purported financial success. During the operation of the conspiracy, Powanda fraudulently exercised stock options and sold Peregrine stock worth more than \$20 million.

According to Assistant U.S. Attorney Eric J. Beste and Sanjay Bhandari, who prosecuted the case, Powanda is the highest ranking sales executive at Peregrine to have pled guilty to criminal charges relating to the fraudulent activities at the company.

The case is the result of an investigation by the Federal Bureau of Investigation, San Diego Division, working cooperatively with a parallel civil investigation conducted by the U.S. Securities and Exchange Commission. Trial against the remaining defendants is scheduled to commence on April 3, 2007.

**DEFENDANT****Case Number: 04cr2605-W**

Douglas Stephen Powanda

**SUMMARY OF CHARGES AND MAXIMUM PENALTIES**

- Count 1: Conspiracy to Commit Securities Fraud, Wire Fraud, Falsification of Books and Records, and Bank Fraud - Title 18, United States Code, Section 371  
Maximum penalty: 5 years' imprisonment, \$250,000 fine
- Count 2: Securities Fraud - Title 15, United States Code, Sections 78j(b) and 78ff, and Title 17, Code of Federal Regulations, Section 240.10b-5.  
Maximum penalty: 10 years' imprisonment, \$1,000,000 fine

**INVESTIGATING AGENCIES**

Federal Bureau of Investigation  
United States Securities and Exchange Commission